Rarity and luxury are fragile things. Cartier, the Richemont subsidiary, has in recent years not enjoyed the double-digit growth common since the 1970s. Part of the blame for this has been put on the Must label, which was introduced in 1973. The label was intended to rejuvenate and enlarge Cartier’s customer base through a more accessible entry line. Offering an affordable image and wide availability, Must was a huge sales success.

Along the way, however, Cartier may have lost some of its luxurious allure. Aware of this, Cartier reduced the number of Must references, narrowed the number of points of sale, in particular with duty free operators, and opened a “Private Collection” department for high-end watches. All this was aimed at reintroducing the notion of scarcity that wealthy customers presumably desire.

Luxury goods offer quality, emotion and rarity, observes Bernard Catry. But how can this scarcity be maintained while, at the same time, expanding sales into emerging new luxury market segments? Luxury goods companies are not selling rare and exclusive products. But, like magicians, they are adept at pretending to do so by offering an illusion of scarcity.
All companies in the luxury goods market face the question of whether exclusivity, so central to luxury appeal, is inevitably diluted by increased market share. The Latin etymology of luxury means difference, departure, deviation. When they buy luxury products customers distance themselves from the mass and from one another through the emotional value of acquiring well-crafted and rare objects. So, is the notion of widely sold luxury goods an oxymoron?

This question is increasingly relevant. In developed countries middle-class households with growing incomes have begun to shop for brands that were previously seen as out of reach. Globalisation has also fuelled this growth. Though potential customers may come from different parts of the world, their tastes are increasingly similar. The luxury industry has been tempted to meet this new demand, not least because many small luxury goods producers are now part of conglomerates such as LVMH and Richemont, which must chase sales to amortise their investments and ever-growing marketing and distribution costs.

But this new demand and the pressure to meet it confront luxury goods companies with a dilemma. They can either ignore it, pursuing their traditional differentiation strategy (and risk being isolated in an elitist niche market) or they can launch more accessible lines that embrace the potential sales volumes but potentially jeopardise their exclusive image.

This latter route was chosen by Cartier with its Must line and also by Havana Club when it decided to modify its premium range of aged rums. Havana launched an anejo version, a blend of different-aged rums, as a substitute for its top-of-the-range seven-year-old version, available only in extremely limited quantities. Will it kill the prestige of the brand? To retain its premium status, should the company restrict itself to a limited market segment?

Vuitton appears to have some answers. The luxury luggage brand opens stores at a relentless pace. One of its most recent investments, the Omotesando store in Tokyo, generated more than $1m of sales in its first day. Vuitton also diversifies into new fields every year. Its entry into the watch market with the Tambour line was an instant success. Vuitton’s management clearly believes that continuing to develop sales does not risk losing the brand’s allure. Rarity, says Vuitton, resides essentially in its over 280 directly owned stores, the only locations where customers can find the famous fashion items.

As a notion, rarity is hard to pin down. Historically, it has stemmed from the use of valuable materials such as gold, silver or diamonds, which are naturally scarce. The Industrial Revolution introduced a new rarity dimension. In the 1920s and 1930s, for example, electrical appliances were launched as a luxury. More recently, luxury goods companies have added a more virtual dimension to rarity. In an effort to reconcile differentiation and volumes, they have tried to generate a sense of rarity through artificial shortages, limited series, marketing policies such as selective distribution, or the selling environment. Like magicians, the luxury incumbents seek to perform an illusion where actual scarcity is replaced by a perceived rarity.

Natural rarity

Originally, scarcity stemmed from the limited availability of raw ingredients, components or production capacity. In the wine and spirit business, customers realise that products may be in limited supply because of the lack or excess of rain or sunshine. Valmont uses rare alpine herbs to produce its high-end Swiss cosmetics. This natural limitation bears both on the ingredients and on the knowledge necessary to turn them into active skincare creams.

The luxury industry has always been familiar with natural shortages. Look at the long delays to buy a SLK Mercedes Coupé during its first years in the US because of factory constraints. Or the wait to acquire the new luxury Vertu telephone from Nokia. Capitalising on natural shortages to express rarity may lead to a durable competitive advantage if the company can secure its supplies. Nonetheless, it presents some obvious drawbacks.

First, natural scarcity is a clear impediment to the sales ambitions stimulated by the emergence of a...
middle class world-wide customers fixated on luxuries. It is difficult to find enough diamonds at an appropriate price to satisfy demand while maintaining quality levels. Also, if quality fails, it may jeopardise the brand image. There is only so much land on which to grow grand crus wines. As a result, trying to promote these wines may mean rapidly running out of stock. Conversely, they risk being priced out of the market if they raise prices to match crop capacity.

Second, profits, as well as sales, can also be affected by natural shortages. Aged spirits, for example, present a specific form of capacity constraint that makes them rare. Any increase in demand for a 12-year-old whisky may take up to 12 years to be met. But ageing requires a great deal of working capital to finance inventory and poses a difficult burden in terms of shareholder value.

Finally, though actually scarce, a luxury product component must still be perceived as such by the market. Some Omas pens are made of titanium. This makes them exclusive. But how many customers in the target population know the real availability of this metal?

Conversely, human expertise may be perceived as rare, although this constraint could be somewhat alleviated through training. Hence the traditional emphasis on the hand-made aspect of luxury goods. Thus, if not self evident or well perceived, the level of availability of natural luxury components should clearly be part of any marketing policy.

Techno-rarity

When not based on rare components, luxury goods’ sense of scarcity has, in many cases, been a matter of continuous investment in innovative product features. This is the domain of “techno-luxe”. The first radios, refrigerators and washing machines were advertised as evidence of progress and became a symbol of elitism. The initial users were part of an aristocracy of elegance. They were the technology leaders. More recently, luxury car brands were the first in the industry to introduce ABS brakes and ESP handling systems as standard. In 2003, Tag Heuer presented the first Swiss digital chronograph accurate to 1/1000th of a second, encased in a liquid metal unscratchable case; a world premiere in luxury watch making.

Techno-luxe rarity is, a priori, compatible with volume because, unlike natural rarity, it is not physically constrained. It is, however, a costly and never-ending race. Indeed, if the new or improved product characteristic pleases the market, competitors will soon follow, annihilating the exclusivity dominance of the innovative brand if not protected by exclusive know-how or patents. The vast majority of car brands now offer airbags and stability controls.

The typical answer to this catching-up is two-fold: first, get one step ahead through intensive research and development; second, work on the economics of the now commoditised innovation to keep an edge on the cost/efficiency side of what has become an industry standard. Once every carmaker offers ABS or airbags, the challenge becomes to manufacture these features more productively. Unfortunately, luxury companies that excel at finding new differentiating innovation often forget to follow up on the operational efficiency side.

The acceleration of new product launches demonstrates the race to innovate among incumbent luxury goods producers. Most perfume houses, for example, used to develop one major fragrance every five years. In 2000, L’Oréal introduced three new Armani perfumes: Mania, White for Him and White for Her. As a result, “techno-rarity” is often reserved for top of the lines, promoting the brand image rather than growing sales into new luxury segments. Customers might forgive the market expansion attempts of their favourite luxury brand if the company regularly relaunches its most prestigious products.
The *haute couture* investments of the fashion industry – fashion shows, catwalks and sophisticated garments – may appear outdated or non-economical to some observers but they provide the necessary glamour to compensate the ready-to-wear initiatives of the fashion firms. Dior *aficionados* will forget about key-chains and other entry-level lower-priced accessories when they hear about the latest creation of John Galliano.

Similarly, the *Trilogie des Grands Crus* series dominates Moët et Chandon’s champagne catalogue now Dom Perignon has become a more independently managed brand within the company. Whereas most brands are blends of wines from the champagne region, the trilogy consists of three champagnes, each made from grapes cultivated in only one of the three of Moët’s most prestigious areas: *Les Vignes de Saran*, *Les Champs de Romont* and *Les Sarments d’Ay*. Only 15,000 bottles of each wine are made each year, sold exclusively in sophisticated restaurants.

This pairing of top-of-the-range technical investments and market enlargement with more accessible lines explains the widening of the price range of many luxury goods over the past 20 years. The differential between the higher and lower price points of Mercedes-Benz is around 10 times. The A-Class entry-price point attracts a new class of middle-class customers while the Maybach and other new coupés satisfy their quest for a brand image of exclusivity through product innovation.

**Limited editions**

If not motivated by natural components or technological innovation, scarcity may be managed by companies through “special series” and one-to-one approaches. But, for cost reasons, it might not be the best route to sales enlargements.

Enticed by new sales perspectives, luxury firms started to shift from actual to more virtual supply constraints. This refers to the well-known limited edition or special series policies. This voluntary limitation may come from the designer himself who will “sign” only a maximum number of pieces to instil some sense of uniqueness to his talent. This has been the rule in the artistic world for original works, prints and reproductions. However, this policy has also been applied as a regular management decision for successful lines.

*Vuitton*, for example, launched a “graffiti” line of bags designed by Marc Jacobs and Steven Sprouse. It was a modern reinterpretation of the Louis Vuitton tradition since the 19th Century of painting initials on monogram canvas. But this time Steven Sprouse painted graffiti rather than customary initials. It was a huge success but production was stopped after a while despite customer requests. For some months many Asian customers continued checking daily the availability of the discontinued model in Tokyo stores.

Some special events call for limited edition/special series policies. Many spirit companies, for example, took advantage of the turn of the century to promote “millennium” series. At Givenchy and Guerlain, launching a new perfume used to be paralleled by a limited series sold in Lalique or Baccarat crystal bottles.

Interestingly, a “pseudo-limited edition” strategy could be a clever way to recover from an unexpected natural shortage. When La Prairie, the luxury cosmetic subsidiary of Bayersdorf, the owner of Nivea, launched a new skin care product the laboratories were unable to meet the high demand. Instead of investing in new production facilities for what could be a short-lived sales burst, the company turned the undesired capacity limitation into a rarity enhancer. Customers were invited to register their name and addresses in an elegant book presented in the stores as a priority waiting list. Sales people were drilled to take advantage of client requests to start a discussion on the quality and exclusivity of the La Prairie line. As a result, a wrong sales forecast turned into a customer relationship initiative.

The notion of limited edition may be extended to special orders and series of one: indeed, offering a different product for each customer is a tradition in the upper part of the luxury market. Expensive diamonds, for example, are the result of unique craftsmanship. Even for more accessible luxury products such as leather bags, each item may be adapted to keep a touch of uniqueness. Renzo Rosso, owner and CEO of Diesel, positions his products as “fashion jeans”. He gives the illusion of selling individual pieces by infinitely multiplying colours and fit.

This customisation may be initiated by companies themselves by avoiding industrialising all of their production processes and keeping some manual manufacturing. This is certainly not done for economic reasons (the machine cost is often lower than the human cost) or even quality (the machine has a more constant quality) but to introduce variability in the output. Omas, for example, retains a final hand-polishing for its pen, although a mechanical process could very well do the job. It wants to ensure each item remains a unique piece of art.

This customisation could also be the result of customer demand. Loewe, the Spanish fashion brand, now personally invites clients to attend store shows where they can buy leatherwear from a specific catalogue. The idea originated in the...
request of many customers to place advance orders for their creations. Such individualised approaches are particularly suited to the luxury industry – the number of customers is often limited, the high margin generated by each purchase makes it both feasible and worthwhile to initiate a one-to-one relationship, and controlled or directly owned retail stores facilitate the direct market contact.

Since they are under company control, limited editions and customisation should not prevent volume strategies. But to maintain the sales level, companies need a sequence of special series and multiplying them raises cost issues of short production runs. Consequently, they can only be a marginal answer to the rarity-volume dilemma.

Other industries facing this issue tend to prefer limited series capitalising on product features, which are less subject to economies of scale. For Peugeot cars, for example, it is obviously less costly to propose a special green colour for its Roland Garros tennis tournament series than to offer a completely different model. This should equally apply to the luxury sector, which implies that the success of limited series relies not only on marketing expertise but also on production knowledge and efficiencies.

Information-based rarity

As a more recent answer to the rarity-volume dilemma, luxury firms have tended to rely on the information communicated to customers rather than on physical supply limitations. Price is one of the first signals picked up by the market through both its level and the systematic fight against uncontrolled sales or discounts: the higher the price, the more selective the purchase seems to be, implying a positive sales-to-price elasticity. In 2002, the Zenith watch line increased its retail prices by 40 per cent overnight with, so far, no drastic direct impact on the volumes sold.

However, if high selling prices often mean exclusivity, they also stimulate new entrants in the sector or may result in deterring customers. In such cases, distribution is a very viable information-based alternative to stimulate a brand imagery of rarity without limiting sales: the brand may then be perceived as rare because it is not available just around the corner, or because the selling environment spreads an elitist atmosphere. Chanel No5 perfume was, in its early years, available only in the company store at 31 rue Cambon in Paris. Sephora, the perfume and cosmetics chain, claims that its official purpose is to “mix mass-market products with luxury ones in a luxury environment”. Tiffany advertises expensive jewellery displayed in shop windows but it sells silver-plated spoons for christening gifts at less than $100. Its recipe, presented to shareholder as one of four key growth strategies, is a distribution that “ensures a superior shopping experience”.

The quest for an elitist touch might even influence a store salesperson's compensation: commission-based wages are likely to be too pushy for the illusion of exclusivity required at retail level. This critical role of the selling environment as a rarity enhancer explains why luxury firms love to control retail through directly owned stores.

Besides price and distribution, luxury brands often stress their sense of exclusivity through advertising in glossy media using highly creative messages. Although sold in mass-market outlets, Absolut vodka has always fought for the illusion of selectivity. Its advertising associates the brand with trendy fashion designers such as Helmut Lang.

Still, some critics argue that advertising is not selective enough; that excessive use of city buses to promote a Lancôme perfume, for example, may identify the brand as a fast-moving consumer good. Thus, some brands eschew media advertising and exploit that as evidence of rarity. L’Oreal's Kiehl’s positions itself as natural, homemade, aimed at “people who know”. This translates into minimalist packaging and distribution via a handful of locations. The brand communication policy focuses mostly on word of mouth and one-to-one meetings between brand representatives and journalists.

To avoid being likened to fast-moving consumer goods, luxury incumbents might prefer public relations programmes and special events. Alfa-Romeo with the Sydney-Hobart sailing race, Mercedes with Formula One or Royal Oak from Audemars Piguet with golf demonstrate the appropriateness of public relations for luxury goods. This tool has the ability to target more specific and limited luxury segments.

In addition, the extent and impact of the press coverage generated by public relations is a combination of the power of the event and the prestige of the brand. Since their prestige is often impressive, luxury brands are likely to get superior press returns.

Moët successfully launched its mini-Moët rosé 25cl champagne bottle in the UK through a clever association with BMW around its Mini-Cooper model. The car was painted with Moët colours and featured a trunk fridge. This communicated Moët originality when driven around London and exhibited in Selfridge’s and at fashion shows.

Owners of the prestigious Berluti boots may join the Swann club, which regularly organises shoeshine parties, adding Dom Perignon champagne to both the shoe cream and the participants’ euphoria.
This does not mean that traditional media advertising is always a waste of money for luxury goods. Perfume firms often devote 20 per cent of their turnover to advertising. In fact, the two communication instruments serve complementary purposes. As summarised in Figure 1, advertising is good at building brand awareness for a large general audience while PR works for communicating to a more select audience. Thus, advertising usually emphasises the credentials, roots and legitimacy, bringing assurance while public relations reinforce the excitement, the risk and emotions.

Hence the importance of PR in communication budgets of luxury goods companies. Jack Daniels targets a wealthier, younger and more urban audience than traditional whiskies thanks to a delicate balance between its advertising and public relations. The global and consistent black and white media advertising illustrates the sedate Lynchburg people in Tennessee and provides an atmosphere of quietness and eternity, reassuring customers of the timeless and unique distillation process. At the same time, Jack Daniels sponsors rock concerts, distributes caps and T-shirts, providing the required excitement to its young clientele.

In addition to the messages they receive, consumers will perceive luxury rarity better when it is translated into enticing names, logos and packaging. Consider a perfume name such as Opium from Yves Saint Laurent; or the metallic noise of the Habit Rouge perfume plastic stopper when you close it.

Rarity perception is also enhanced when it is materialised in museums or “heritage centres”. Patek Philippe increases its legitimacy as a unique watch brand through an elegant five-storey museum in Geneva, presenting the roots and evolution of the company since its creation in 1839.

Uniqueness can also be evoked by stories about brand origins. Here, family businesses have an edge over the large public conglomerates. They can build their sense of exclusivity around the founder’s myth. Hennessy, for example, always takes pride – and profit – from recounting the long family cognac tradition. Tag Heuer recently appointed Jack Heuer, former CEO and owner, as company honorary chairman. Besides personifying the watch company tradition, he is in charge of developing historical pieces like the Carrera or the Autavia.

And if the marketing mix is not sufficient to counterbalance the negative image of sales volumes, try a combination of two brands. One brand embodies rarity and integrates the latest technological improvements. Any surge in demand is translated into price increase to keep selling to a narrow market segment.

Ferrari has this iconic role within the Fiat group. Over the years, the prices of its new models went up and volumes remained voluntarily limited. Another seemingly unrelated brand, Maserati, is lower priced and designed to absorb any market expansion. Built at Ferrari’s Maranello plant, Maserati benefits from some of its innovations. It is sold more extensively and could be seen as the first step to acquiring the icon model. One line means rarity, another copes with the new luxury demand. Similarly with Donna Karan, where the DKNY label seduces the younger and less affluent customer, complementing the more traditional prestigious fashion brand.

Rarity is also a matter of corporate identity and culture. Luxury firms love secrecy. In the fashion world, the seasonal catwalks have always triggered paranoia about potential leaks of new collections. Secrecy is also evident in the way people and structures are handled. Wages and royalties are not often disclosed; financial details and ownership are not always transparent. The real beneficiaries are sometimes hidden behind a cascade of legal entities. In many luxury companies there is a culture of confidentiality and even censorship built around a set of sacred cows. It is very difficult, for example, to obtain Dom Perignon sales figures or the number of bags sold by Vuitton, if only because releasing the information about the relatively high volumes achieved could reduce the perception of exclusivity.

The main purpose of this organisational impenetrability may be more related to tax than...
Nevertheless, it consolidates the luxury brands’ aura of elitism as done by the often obtuse vocabulary used: designers and managers don’t work in companies but in “houses”; factories are “workshops”; products are “models”.

Last but not least, customer perception of scarcity may originate in the “starification” of designers, products, managers and customers.

At the creative level, luxury firms promote one or two major designers as divas even though part of the creation relies on less glamorous studios. John Galliano with Dior, for example, is not only a designer central to Dior’s rejuvenation but also a star used as a public relations vehicle. He even contributes to many marketing dimensions – displays, store windows, promotions and so on.

This is also true for products. Many luxury brands keep and promote star models even though they might represent a very small part of the turnover. Hermès saddles or Vuitton trunks are virtually mythical products making less than one per cent of the brands’ sales, for example.

At the management level, rumours and anecdotes abound about luxury firm’s founders or executives. Compare this with fast-moving consumer goods, where few consumers know the names of industry executives.

Equally, though the average customer is marketing-literate enough to understand that Anna Kournikova’s choice of an Omega Speedmaster is motivated more by financial than by aesthetic considerations, it still works.

If the luxury industry wants to run star brands, every component of the product value chain has to be “starified”, from the design and product stages to managing the goods, down to consuming them – including fake products and counterfeits. While luxury houses consistently condemn cheap copies of their best items, some admit that the publicity stemming from their discovery and destruction may be beneficial. Fakes cast a symbolic shadow of preciousness and exclusivity.

**From reality to virtuality**

Luxury goods attract customers through a combination of quality, emotion and rarity. But there is a trade-off between rarity and volume. When scarcity is based on the supply and production sides of the product value chain such as the use of rare components and ingredients, this trade-off is influenced by physical constraints.
and sales are naturally limited. More virtual rarity drivers such as company marketing and distribution policies or the information transmitted to customers are less of a sales impediment because they do not imply a physical product shortage. They help to push the trade-off curve towards more volume while keeping a good dose of differentiation.

Thus, given the volume temptations stimulated by the emerging new demand of the middle class or by the sales requirements of big luxury groups, there is a clear tendency towards more virtual exclusivity drivers, as summarised in Figure 2. The product is not objectively limited in supply but luxury firms give their buyers an illusion of rarity through the information they deliver.

This trend also fits the recent evolution towards more customised, one-to-one interaction with customers. Indeed, it is more difficult to adapt the strategy to individual customer desires if product originality derives from ingredients or components. Natural product features makes the product unique versus competitors, which is nice, but also standard for all consumers, which is not as appealing from a one-to-one perspective.

Chateau d’Yquem produces its superb wine by picking each grape individually just before it rots: a strong argument against competition but an argument that is common to all customers and thus not adaptable to individual need.

Conversely, if the sense of rarity is built on emotion through marketing tools such as public relations or mailings, the message can be more readily adjusted to various market segments. Some Vuitton customers may enjoy the exclusive image provided by the association with the eponymous sailing cup; others may prefer the selective atmosphere of the directly owned stores. When used as source of rarity, product features do not easily lend themselves to customisation. But emotions felt by customers remain individual.

Three words of caution, though

First, each driver requires different kind of competence. Scarcity in components calls for supply capabilities. Techno-rarity is based on research and development. Limited editions need the right combination of production efficiencies and marketing expertise. Information-based rarity relies on marketing and public relations know-how.

Second, whatever the driver of rarity, whether it is natural or virtual, luxury goods companies should do everything possible to preserve the perception of uniqueness. Unfortunately, the institutional communication of recently emerged luxury groups, such as PPR with Gucci or Richemont with Cartier, does not always deliver the same consistent level of brand personality. In their shareholder reports, for example, individual brands are grouped in “branches” or “divisions” such as “watches and jewellery”. Immersed in a mass of divisional figures and ratios, they lose their individuality.

Third, the pendulum may, one day, swing in the opposite direction. Putting too much emphasis on a virtual rarity may rejuvenate the need for authentically rare components and materials. Again, luxury competitors used to managing brand portfolios will be readier to cope with this trend when it materialises: one line could then be based on actual components scarcity, another could pursue the rarity illusion track.

Illusion is in the air as luxury goods companies, like magicians, try to preserve both their differentiation and sales, favouring the dream rather than the reality of rarity. This dream is a multidimensional concept built on clever management of the information delivered to customers. But the dream is here to stay – if only because luxury firms have always been experts in the art of selling illusion.

Resources

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